June 8, 2010

CARE REVISES THE RATING ASSIGNED TO THE LONG-TERM BANK FACILITIES OF PANCHSHIL INFRASTRUCTURE HOLDINGS PVT. LTD.

Rating Assigned

Facilities/Instruments	Rated Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	126.48	'CARE BBB-' [Triple B minus]	Revised from 'CARE BBB' [Triple B]

Rating Rationale

The rating revision is primarily on account of a delay in the commencement of 'Linear' property leading to cash flow mismatch and the restructuring of loans, high contingent liabilities and declining RevPAR resulting into losses in 9MFY10.

The rating continues to derive strength from the experience of Panchshil Group as a real estate developer, promoters' support towards cost overrun, location of the proposed project (in the heart of Pune city), experience and financial strength of 'Morgan Stanley Real Estate Fund', agreement with 'Oakwood Asia Pacific- a division of Oakwood Worldwide' for operations of the service apartments and sufficient liquidity.

The rating continues to be constrained by risk of stabilization of its operations, increased competition from proposed room supply in the medium term and inherent cyclical nature of the hospitality industry.

The ability of the company to achieve higher RevPAR in the given market scenario and increased competition from proposed room supply in medium term remains the key rating sensitivity.

Company Profile

Panchshil Infrastructure Holdings Pvt. Ltd. (PIHPL) is a 51:49 JV between Premsagar Hotels Pvt. Ltd (PHPL) of Panchshil group and MVI Magic Investments Inc [a 100% subsidiary of Morgan Stanley Real Estate Fund (MSREF) incorporated in Mauritius]. PIHPL is an SPV created for the development of premium quality service apartments in Pune.

The project consisted of two categories of apartment's viz. Studio Apartment consisting 84 rooms & Linear Apartment consisting 202 rooms.

PIHPL has entered into a 25-year hotel operation, trade mark license, and management um marketing agreement with 'Oakwood Asia Pacific', a division of Oakwood Worldwide, a leading global temporary housing provider.

[1] *"Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications".*

The initial project cost for Studio-84 and Linear-202 was estimated at Rs.30.62 crore and Rs.147.94 crore, respectively. The project cost for Studio was revised to 41.04 crore taking total project cost to Rs.188.98 crore to be funded at debt to equity ratio of 2.05x.

Operations and current status of project

Studio 84 was completed as per schedule and is operational since July 2007; however, the commercial operation of second property, Linear 202 was delayed by 13 months and commenced operations in May 2009. The projects are complete and operational, however, with a cost overrun of Rs.24.8 crore crore which was funded by promoters in the form of equity and unsecured loans.

On a total income of Rs.19.85 crore, the company earned a PAT of Rs.1.67 crore in FY09. The overall gearing ratio of the company was high at 3.22(x) as on March 31, 2009.

The company has achieved sales of Rs.25 crore in 9MFY10 with a net loss of Rs.8.88 crore. However, the promoters have infused additional equity to the extent of Rs.20 crore and unsecured loans worth Rs.5.95 crore in 9MFY10.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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